

Message Text

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73

ACTION ARA-20

INFO OCT-01 ISO-00 AID-20 CIAE-00 COME-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SP-03

CIEP-02 LAB-06 SIL-01 OMB-01 TAR-02 AGR-20 SWF-02

HEW-08 L-03 PA-04 PRS-01 USIA-15 DRC-01 /153 W

----- 078333

R 292238Z MAY 74

FM AMEMBASSY GUATEMALA

TO SECSTATE WASHDC 3238

INFO AMEMBASSY MANAGUA

AMEMBASSY SAN JOSE

AMEMBASSY SAN SALVADOR

AMEMBASSY TEGUCIGALPA

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E.O. 11652: N/A

TAGS: EFIN, GT

SUBJECT: GOG SUBMITS EXPORT TAX BILL TO CONGRESS

1. SUMMARY: ON MAY 27 CONGRESS PROPOSED DRAFT
LEGISLATION TO TAX "EXCESS PROFITS" ON EXPORT OF
COFFEE, COTTON, SUGAR, BEEF AND SHRIMP. CONGRESS
ON MAY 28 APPROVED BILL IN FIRST OF THREE READINGS.
COMMERCIAL AGRICULTURE SECTOR NOW MOUNTING MAJOR EFFORT
BLOCK OR AT LEAST MODIFY BILL IN SUBSEQUENT READINGS.

2. AFTER MONTHS OF IN-HOUSE CONSIDERATION, GOG ON MAY 27,
ACTING THROUGH CONGRESS, FINALLY MADE PUBLIC TAX REFORMS
PACKAGE. PACKAGE FOCUSES EXCLUSIVELY ON EXPORTS OF
TRADITIONAL PRODUCTS. GENESIS OF PROPOSAL WAS MORE
COMPREHENSIVE TAX PACKAGE PROPOSED BY PLANNING
COUNCIL LAST SUMMER(SEE A-203, SEPT 23, 1973) AND
REFINED IN ITS OPERATIONS PLAN FOR 1974 (SEE A-034,
FEB 27, 1974). IN PRESENTING PROPOSAL PRESIDENT OF CONGRESS

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MARIO SANDOVAL WENT TO GREAT LENGTHS TO DEPICT MEASURE AS PART

OF ANTIFLATIONARY PROGRAM. NOTING THAT GOVERNMENT HAD RECENTLY DETERMINED TO SUBSIDIZE BUS FARES AND ELECTRIC POWER RATES IN ORDER TO PROTECT CONSUMERS FROM CURRENT INFLATIONARY SPIRAL, MINISTER FINANCE LAMPORT INVITED BY SANDOVAL TO COMMENT ON PROPOSAL DECLARED THAT FUNDS FOR SUCH SUBSIDIES COULD ONLY COME FROM REVENUE INCREASES. HE POINTED TO FACT THAT TAX BURDEN IN GUATEMALA IS LOWEST IN LATIN AMERICA. HAVING ILLUSTRATED OBVIOUS NEED, HE THEN EXPLAINED THAT TAXING "EXCESS PROFITS" OF COMMODITY EXPORTERS WOULD NOT AFFECT MASS OF GUATEMALANS EVEN INDIRECTLY, SINCE NEW TAX BASE IS PON EXPORTS.

3. NOTWITHSTANDING TERMINOLOGY USED BY LAMPORT, GOG'S PROPOSAL IS EXPORT TAX SCHEME RATHER THAN EXCESS PROFITS TAX SCHEME. EXPORTS OF COFFEE, COTTON, SUGAR, BEEF AND SHRIMP WOULD BE TAXED ACCORDING TO SLIDING SCALE LINKED TO INTERNATIONAL PRICES OF THOSE COMMODITIES IN A MANNER SIMILAR TO EXISTING COFFEE TAX. EFFECTIVE PROPOSED TAX RATES CANNOT BE CALCULATED AT THIS TIME FOR WANT OF DETAILED INFORMATION HOWEVER, IT APPEARS THEY VARY CONSIDERABLY. GOG CLAIMS THAT IMPLEMENTATION OF TAX PACKAGE WOULD YIELD CLOSE TO \$40 MILLION ON ANNUAL BASIS AT TODAY'S PRICES.

4. NOT SURPRISINGLY, THE COMMERCIAL AGRICULTURE SECTOR WORKING THROUGH CACIF, AGA, ANACAFE AND OTHER ORGANIZATIONS HAS QUICKLY MOUNTED A MASSIVE PUBLIC RELATIONS ATTACK ON PROPOSAL. THEY HAVE EVEN INDUCED A CAMPESINO ASSOCIATION TO PROTEST. THROUGH SUCH PUBLICITY AND, MORE TO THE POINT, THROUGH PRIVATE CONTACTS IN GOG AND CONGRESS, THEY SEEK BLOCK OR AT LEAST MODERATE PROPOSAL BEFORE IT REACHES SECOND READING.

5. COMMENT: ALTHOUGH GOG PLANS FOR THIS TAX PACKAGE GO BACK A YEAR AND ACTION HAS BEEN RUMORED FOR SOME TIME, THE DETAILS OF THE PACKAGE APPARENTLY HAVE COME AS A SURPRISE TO PUBLIC. QUITE OBVIOUSLY, THE GOG FELT IT COULD NOT CONSULT WITH THE PRIVATE SECTOR IN DEVISING A RATIONAL TAX PACKAGE. THEREIN LIES A MAJOR PROBLEM. ALTHOUGH TAX REFORM IS A HIGH PRIORITY FOR GUATEMALA FROM ANY POINT OF VIEW, FAILURE TO CONSULT AND AT LEAST GO THROUGH THE LIMITED OFFICIAL USE

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MOTIONS OF TAKING HIGHER PRODUCTION COSTS INTO ACCOUNT GIVES THE AGRICULTURALISTS A STRONG WEAPON IN MAKING THEIR COUNTERATTACK. NOT ONLY WILL THEY CLAIM THAT THE HIGHER COSTS OF FERTILIZER, INSECTICIDES, LABOR ET AL MAKE FARMING LITTLE MORE THAN A BREAK-EVEN PROPOSITION EVEN AT CURRENT PRICES, BUT THEY WILL ALSO CRY "DOUBLE TAXATION." THAT IS, THEY WILL NOTE THAT THE NEW TAXES ARE ON GROSS SALES AND WILL NOT BE DEDUCTED FROM

GROSS INCOME WHEN IT COMES TIME TO CALCULATE INCOME TAXES. SUCH ARGUMENTS NEED NOT BE ENTIRELY VALID TO HAVE AN IMPACT. WHO IS GOING TO STAND UP AND NOTE THAT MANY AGRICULTURALISTS AVOID PAYING INCOME TAX? AND WHO IS GOING TO RECOGNIZE THAT THE WIDELY VARYING EFFECTIVE TAX RATES FOR THE DIFFERENT PRODUCTS AT TODAY'S PRICES INDICATE THAT THE GOG DID ATTEMPT TO TAKE COSTS INTO ACCOUNT IN SETTING THE SLIDING SCALES.

6. THE BATTLE IS THUS JOINED BETWEEN THE GOG AND A SEGMENT OF ITS STRONGEST SUPPORTERS. THE OUTCOME SHOULD TELL US MUCH NOT ONLY ABOUT RELATIVE STRENGTHS IN GUATEMALAN SOCIETY BUT ABOUT THE PROBLEMS TO BE FACED BY THE NEW ADMINISTRATION.

7. BY HAVING CONGRESS SURFACE TAX PACKAGE AS IF IT WERE ITS OWN INITIATIVE, GOG MAINTAINS FACADE OF COMPLYING WITH ARANA'S 1970 ELECTORAL PROMISE OF "NO NEW TAXES." (IN PRESENTING DARFT, SANDOVAL WENT OUT OF HIS WAY TO STRESS THIS THEME - THIS IS CONGRESSIONAL ACTION AND THUS DOESN'T IMPLY A BROKEN PROMISE BY ARANA.) ADDITIONALLY, IT WILL BE EASIER FOR GOG TO BACK DOWN IF IT FEELS IT NECESSARY TO DO SO.
MELOY

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